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CHEMICAL BANKING Corporation

MANUFACTURERS HANOVER

Financial Digest

Volume XXIX, Number 1 Monday, January 13, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Some Reasons For Optimism

As the new year begins to unfold, one can hardly be blamed for feeling downcast about the economy: Virtually every day brings another seemingly dismal economic statistic, the media eagerly pounces upon what it perceives to be the latest sign of business woes, and their colleagues in the economics fraternity occupy themselves with "doom and gloom" one-upmanship. Even the Administration has succumbed to the unrelenting howls of hard times ahead, shelving its cautious view that a modest business rebound began last spring, and is now searching for a credible plan to wake up the economy. But, while the public mood has soured and some admittedly weak economic numbers do grab the headlines, there is a surprisingly large amount of good news interspersed among the bad. These run the gamut from housing starts to exports to consumer finances, and belie the notion that the economy is unraveling at a quickening speed.

Nowhere is the perception of a darkening economy more evident than in the employment picture, which spills over into sagging consumer confidence and a pronounced reluctance to spend. Extensive lay-off announcements have become part and parcel of every disappointing corporate earnings report, initial claims for state jobless benefits remain at lofty levels and, perhaps most disturbing and certainly well-publicized, the Labor Department's monthly payroll employment tally compresses all the grim news into what seems to be a never-ending attrition of the paid workforce. But appearances can sometimes be deceiving. In what could be the most striking example of unintended and untimely negativism, it was initially reported that more than 240,000 payroll jobs vanished in November, a bright yellow caution light to both retailers and consumers preparing for the heart of the Holiday selling season.

What escaped public notice at the time was the fact that the entire net jobs loss stemmed from the statisticians' computers, rather than actual payroll counts. Since retailers hired far fewer temporary workers for the holidays than they have in the past, this development alone translated into a huge job loss after seasonal adjustment; in reality, the retail trade actually added workers. Thus, the seasonally adjusted employment figures for November provided an absolutely dismal snapshot of labor market conditions, rendering irrelevant the fact that there was a small net gain in jobs during the month. To be sure, this is not intended to minimize the plight of the jobless, or those too discouraged to seek work, but it does illustrate how statistical myopia can needlessly damage public confidence.

Beneficiaries Of Lower Interest Rates

There is often a silver lining in even the darkest cloud and this time is no exception. The growing perception of an economy dead in the water has prompted the Federal Reserve to aggressively push interest rates lower. Two beneficiaries emerge almost immediately—housing, which is already on the mend, and exports, poised to receive an additional boost in response to earlier declines in the dollar. Take, for example, the housing industry. Although the public is reminded endlessly of falling property values and the apparent ineffectiveness of lower interest rates to jump-start the economy, it is precisely these two factors which have enhanced the affordability of housing. With the percentage of households that can afford a home ratcheting higher, new home sales have risen by 26 percent since their January 1991 trough, and existing home sales have jumped by nearly 15 percent during the same period. In response, builders have stepped up their activity. Housing starts are up by 26 percent compared with January 1991 and building permits have advanced by better than 24 percent.

Exports, too, provide grounds for optimism. For notwithstanding a slowdown in economic growth throughout most of the industrial world, overseas sales continue to increase at a healthy clip. Inflation-adjusted exports are up 11 percent since February, paced by a sharp double-digit increase in capital goods exports. This, in turn, has helped to stimulate a modest rebound in manufacturing activity. Although industrial

Economics Department 17/270

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production is up by only three percent since March, more robust output gains should be in the offing. For one thing, order books are getting fatter. Total factory orders are up by about 7½ percent since March, with a hefty 25 percent rise in nondefense capital goods orders leading the way. For another, modest output gains and eight straight months of rising factory shipments have pared factory inventories. The inventory-to-sales ratio for all manufacturing now stands at its lowest level in 12½ years, suggesting that further order gains will almost have to translate into stepped-up production. Finally, vigorous cost-cutting and lower interest costs will boost corporate earnings and cash flow, setting the stage for additional capital spending.

Nor do the positives end at homebuilding sites or factory order books. The consumer seems to possess a bit more life than popularly assumed. Although the final tally is not yet in, and the Holiday selling season certainly disappointed many retailers, others reported brisk sales growth. What is more, December apparently ended on a more positive note than it began. Anecdotal reports suggest that post-Christmas retail activity was healthier than anticipated, and even automobile sales jumped decidedly

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/25/91)	164,144	- 2,205	- 36,943
New York City (1/1/92)	27,403	- 1,081	- 7,673
Commercial Paper (1/1/92)	526,531	- 9,989	- 30,728

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/25/91)	289,945	- 2,000	- 26,664
New York City (1/1/92)	50,576	- 972	- 6,331

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/25/91)	1,008,822	- 1,257	- 14,548
New York City (1/1/92)	161,973	- 5,330	- 21,384

Financial Markets

	Friday 1/10/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, 12 Noon Yields:			
90-Day Bills†	3.89%	- .04	- 2.45
180-Day Bills†	3.99	- .01	- 2.55
Longest Bills†	4.11	-0-	- 2.50
Recent Issues:			
5s 12/31/93	4.82	+ .05	
6⅛s 12/31/96	6.11	+ .07	
7⅛s 11/15/01	6.84	+ .01	
8s 11/15/21	7.46	- .01	
Municipals:			
Bond Buyer—20 Bond Index* (1/9/92)	6.40%	- .12	- .75
Blue List Total ($ Million)	$ 785	+ $101	- $570
30-Day Visible Supply ($ Million)	$2,649	- $203	+ $746
Total	$3,434	- $102	+ $176
Corporates:			
Moody's Aa Composite (1/9/92)	8.42%	- .03	- .99
30-Day Visible Supply ($ Million)	$ 400	+ $400	- $125
Stocks: (Thursday, 12/26/91)			
Dow-Jones Averages:			
Industrials	3,199.46	- 2.02	+707.12
Transportation	1,351.84	+ 1.13	+446.38
Utilities	216.07	- 9.52	+ 11.84
65 Stocks	1,154.19	- 7.15	+266.99
N.Y.S.E. Composite Index	228.95	- 1.40	+ 56.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	257,202	+ 28,229	+109,373

*34% Taxable equivalent 9.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/10/92	Week Ago
Overnight	4.06%	4.44%
1 month	4.06	4.13
3 month	4.00	4.06
6 month	4.00	4.06
1 year	4.19	4.19

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/10/92)	Currency Per U.S. $	Week Ago
Belgium	32.41	31.86
Canada	1.1538	1.1477
France	5.3705	5.2810
Germany	1.5740	1.5475
Italy	1188.30	1167.40
Japan	126.70	124.70
Mexico	3098.20	3074.00
Netherlands	1.7730	1.7427
South Korea	748.50	746.53
Switzerland	1.4031	1.3735
Taiwan	24.89	25.49
U.K.*	1.8026	1.8470

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/10/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.3%	-11.9%

higher at month's end. Moreover, the recent period of subdued consumer spending does have a positive side. At 5½ percent, the savings rate is currently above the average of the 1987-1991 period and, with consumers paying down debt in eight of the past 13 months, the ratio of installment debt to disposable income has dropped to about the lowest level in six years—laying the groundwork for an appreciable spending upturn once confidence returns.

Is The Recession Still On?

When this will happen is anyone's guess, especially in light of heightened recession perceptions. But, if the economy is indeed in the midst of its longest postwar recession—as many of the more vocal pundits argue—then the current situation is unique in another respect. The gross domestic product expanded in both the second and third quarters of last year and never before has a post-war recession been interrupted by back-to-back growth quarters. This means that even if the GDP did contract slightly in the quarter just ended—by no means a sure bet—it would be premature to conclude that the recession is still on. More likely, the fourth quarter was a refreshing pause, providing a springboard for a solid rebound later this year. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/8/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	276.149	- 9.677	+33.641
Loans to Depository Inst.	.873	+ .705	+ .550
Float	.982	+ .287	- .063
Total Reserve Bank Credit	312.070	- 8.587	+28.761
Treasury Deposits with Federal Reserve Banks	6.147	- 6.858	- .759
Currency in Circulation	306.821	- .823	+20.585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	257.348	+ 6.139	+ 7.177
Member Bank Reserves:	**1/8/92**		
Total Reserves Held	57.185	+ 1.693	- 9.183
Excess (Deficiency)	1.206	+ .007	- 2.386
Net Free Reserves	.686	- .398	- 2.633
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (12/30/91)	895.9	+ 12.1	+ 8.6
M2 (12/30/91)	3,409.6	+ 2.9	+ 2.6
M3 (12/30/91)	4,145.6	+ 2.4	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/10/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.81%	3.87%	3.94%
* Federal Agencies	4.00	4.00	4.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	3.94	4.39
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.00	3.98	4.10

‡ Finance Company Paper–Prime

5- 14 days	3.80%
15- 29 days	3.85
30- 59 days	3.92
60- 89 days	3.95
90-179 days	3.95
180-239 days	4.00
240-270 days	4.00

‡* Bankers' Acceptances

Feb.	4.06%
Mar.	4.03
Apr.	4.00
May	3.98
Jun.	3.96
Jul.	3.92

‡ Industrial Paper–Prime

30- 89 days	3.99%
90-120 days	3.95

†Federal Funds Effective Rate 3.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,709	$ 5,653	$ 5,570
Gross Domestic Product (1987 Dollars)*	3rd Q'91	$ 4,863	$ 4,841	$ 4,903
Percent Change, Annual Rate	3rd Q'91	1.8	1.4	0.2
Change in Consumer Prices*	Nov '91	4.8%	1.2%	3.6%
Change in MH Cost of Living Index*	Nov '91	6.0%	1.2%	4.8%
Change in Producer Prices*	Dec '91 n	- 2.4%	2.4%	- 7.2%
Civilian Employment (Thousands of Persons) †	Dec '91 n	116,728	116,772r	117,476r
Unemployment as % of Civilian Labor Force †	Dec '91 n	7.1%	6.9% r	6.1% r
Personal Income*	Nov '91	$ 4,879	$ 4,857	$ 4,716
Leading Indicators Composite Index (1967=100) †	Nov '91 n	145.1	145.5	139.7
Industrial Production Index (1977=100) †	Nov '91	107.8	108.2	108.3
Net Change in Consumer Installment Credit †	Nov '91 n	$ 0.03	$ 1.67r	$ 0.98
U.S. Merchandise Trade Balance †	Oct '91	- $ 6.73	- $ 6.93	- $ 9.90
Plant and Equipment Expenditures*	1st Q'92	$ 563.3 (a)	$ 532.0 (a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Nov '91	1,066	1,089	1,130
New Construction Expenditures*	Nov '91 n	$ 406.3	$ 409.4r	$ 431.4
Total Business Inventories †	Oct '91	$ 812.8	$ 809.8	$ 829.1
Total Business Sales †	Oct '91	$ 542.7	$ 540.9	$ 554.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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